

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2017

Docket No. ACR2017

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-15 OF CHAIRMAN'S INFORMATION REQUEST NO. 3

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 3, issued on January 12, 2018. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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January 19, 2018

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

1. Please refer to Library Reference USPS-FY17-4, December 29, 2017:
 - a. Please resubmit the Special Services Excel file "FY17 Special Services.xlsx" with embedded links to "1Q17 Special Services.xlsx," "2Q17 Special Services.xlsx," "3Q17 Special Services.xlsx," and "4Q17 Special Services.xlsx."
 - b. Please resubmit the USPS Marketing Mail Excel file "FY2017 USPS Marketing Mail BD – Public Final.xlsx" with embedded links to "1Q17 USPS Marketing Mail BD – Public Final.xlsx," "2Q17 USPS Marketing Mail BD – Public Final.xlsx," "3Q17 USPS Marketing Mail BD – Public Final.xlsx," and "4Q17 USPS Marketing Mail BD – Public Final.xlsx."

RESPONSE:

- a. The requested material is provided in folder USPS-FY17-45. Note that the quarterly Billing Determinants files provided today in that folder do not match the quarterly files that were originally provided on December 29, 2017; the previous version inadvertently contained the preliminary quarterly Billing Determinants files.
- b. The requested material is provided in folder USPS-FY17-45.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

2. Please refer to the passthroughs for Automation Mixed AADC Letters and Automation Mixed ADC Flats, currently 1300 percent and 190 percent, respectively. FY 2017 ACR at 17, 19. The Postal Service states “because of the shrinking cost avoidance of basic IMb barcoding relative to the value of Full Service Intelligent Mail, [it] may conduct a fundamental reevaluation of its barcoding strategies.” *Id.* at 17.
- a. Please provide a plan to phase out these excessive passthroughs for Automation Mixed AADC Letters and Automation Mixed ADC Flats.
 - b. Please provide a narrative that discusses the potential “fundamental reevaluation of its barcoding strategies.” *Id.* The narrative should include a timeline of when the reevaluation will begin and when the reevaluation will be complete. In addition, please provide potential barcoding strategies that are being considered.

RESPONSE:

a-b. The Postal Service continues to evaluate its barcode strategy as it relates to basic barcodes and the increasing use of Full Service Intelligent Mail IMb barcoding. However, there is uncertainty associated with Postal Service governance and other areas that could impact the regulatory framework for barcode workshare discounts. Future strategies may include reducing the gap between automation and nonautomation mail pieces, outright elimination of the nonautomation category and/or increasing the monetary incentive for full-service IMb while lowering incentives for the basic barcode. The Postal Service is very cognizant of wanting to avoid unintended consequences. Changes to our barcode strategy are best served via industry feedback through forums such as the Mailers Technical Advisory Committee, Postal Customer Counsels, etc. This will take time and no decisions have been made regarding the best strategy going forward.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

3. Please refer to Library Reference USPS-FY17-NP2, December 29, 2017, folder "ICRA Core Files," Excel file "Reports (Unified).xls," tab "A Pages (md)" and Docket No. ACR2016, Library Reference PRC-LR-ACR2016-NP2, March 28, 2017, Excel file "PRC-LR-ACR2016-NP2 UNIFIED ICRA.xlsx," tab "ACR2016 Intl SpecServ Products." Please identify and discuss the factors that contributed to the decrease in unit revenue and the increase in unit cost for Inbound Registered Mail from FY 2016 to FY 2017.

RESPONSE:

Unit revenue decreased because revenue decreased more than volume decreased.

One reason for the decrease in revenue may be that, as of October 1, 2016, the Postal Service began reporting revenue from the Inbound Market Dominant Registered Service Agreement, which is the subject of Docket No. R2016-6, separately from Inbound Market Dominant, International Ancillary Service.

Unit cost increased because cost decreased less than volume decreased. The primary explanation of why costs decreased less than volume is that most of the costs are in Delivery, which has less than 100 percent volume variability. Additionally, a costing methodology change may also be contributing to these circumstances. With the approval of Proposal Four in Docket No. RM2017-8 (Order No. 4259, December 1, 2017), the street time proportion of Parcels/Accountables (of which this is a component) increased from 5.4 percent in FY 2016 to 7.65 percent in FY 2017.

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

4. The Postal Service reported that Inbound Registered Mail did not cover its cost. FY 2017 ACR at 44. Please provide the total number of In-Office Cost System (IOCS) tallies, the coefficient of variation for the IOCS-based cost estimate, and the 95 percent confidence interval for the cost coverage of Inbound Registered Mail.

RESPONSE:

There were one hundred twenty nine (129) IOCS tallies for Inbound Registered Mail in FY2017. The coefficient of variation (CV) for the IOCS-based cost estimate is 13 percent. Incorporating only the variability of the IOCS-based cost, the cost coverage would range from 13 percentage points below the current point estimate to 21 percentage points higher.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

5. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-FY17-NP33.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

6. Please refer to Library Reference USPS–FY17–NP2, folder “Supporting Files,” subfolder “FPS Inbound Data,” Excel file “FPS_Inbound_Inputs.xlsb” tab “ALC.” Please confirm that the shape-based volume, revenue, and weight data in the above spreadsheet came directly or indirectly from SIRV/I. If not confirmed, please identify the source of these data and where SIRV/I data are reported in the FY 2017 ACR.

RESPONSE:

Not confirmed. The source of the data in the Excel tab mentioned in the question is the Foreign Postal Settlement system (FPS), which was approved by the Postal Regulatory Commission for use in both the Revenue, Pieces, and Weight report (RPW) and International Cost and Revenue Analysis report (ICRA), in Order No. 920 (Docket No. RM2011-12) and Order No. 1516 (Docket No. RM2012-7), respectively.

The weights reported by format in the Excel tab mentioned in the question are based upon the dispatch information provided by the sending postal operators. The volumes reported by format in the Excel tab mentioned in the question are based upon either (a) known volumes for census streams, or (b) calculated by multiplying the known format weights by the formats' estimated number of items by kilogram (IPKs), which are based upon SIRV/I. The revenues reported by format in the Excel tab mentioned in the question are calculated by applying the applicable charges to the volumes and weights by format.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

7. The Postal Service reported that Outbound International Insurance did not cover its cost. FY 2017 ACR at 71. Please provide the total number of IOCS tallies, the coefficient of variation for the IOCS-based cost estimate, and the 95 percent confidence interval for the cost coverage of Outbound International Insurance.

RESPONSE:

There were six (6) total tallies for Outbound International Insurance Mail in FY2017. The coefficient of variation (CV) for the IOCS-based cost estimate is 43 percent.

Incorporating only the variability of the IOCS-based cost, the cost coverage would range from 25 percentage points below the current point estimate to 329 percentage points higher.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

8. Please refer to Library Reference USPS–FY17–NP4, December 29, 2017, folder “Programs,” Excel file “CRA.DIM.FY17.xlsm,” tab “ICRAMailClasses.”
- a. Please confirm that ICRA mail class number 103 (PMI-Envelopes) was consolidated into ICRA mail classes 104 and 53 (PMI Canada and PMI Rest of World). If confirmed, please also confirm that this change was made in conformance with Order No. 3250.¹
 - b. If not confirmed, please identify where ICRA mail class 103 is reported and please explain the rationale for this change.

RESPONSE:

- a. Both confirmed.
- b. NA

¹ Docket No. MC2016-118, Order Approving Changes to the Mail Classification Schedule Related to Priority Mail international Flat Rate Envelopes and Priority Mail International Small Flat Rate Boxes, April 19, 2016 (Order No. 3250).

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TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

9. Please see Attachment, filed under seal.

RESPONSE:

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TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

10. Please see Attachment, filed under seal.

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TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

11. Please see Attachment, filed under seal.

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TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

12. Please see Attachment, filed under seal.

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

13. Please see Attachment, filed under seal.

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

14. Please see Attachment, filed under seal.

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3**

15. Please see Attachment, filed under seal.

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